

DISCLAIMER

- The purpose of this presentation is an overview of the subject matter with summation and explanation of recent changes in FHA policy. It introduces and explains, rather than supplants, official policy issued in Handbooks and Mortgagee Letters. If you find a discrepancy between the presentation and Handbooks, Mortgagee Letters, etc., the official policies prevail. Please note the information provided in this training is subject to change.
- Please consult HUD online Handbooks at <http://www.fhaoutreach.gov/FHAHandbook/prod/contents.asp?address=4155-1> and Mortgagee Letters through <http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/index.cfm> for the most recent updates and current policy.



Refinances



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Definition

- Used to pay off an existing real estate debt from the proceeds of a new mortgage that has the same borrower(s) and the same property



Considerations

- FHA Appraisals are valid for 120 days. Appraisals can not be re-used during this period when the mortgage for which the appraisal was ordered has closed.
- On FHA to FHA refinances, a refinance authorization number must be obtained
- Borrowers are not allowed to skip payments
Must be current for the month due



Considerations

- As long as the borrower has legal title, he/she is eligible for a refinance
- Maximum loan term is 30 years on refinances with appraisals, however a streamline without an appraisal is limited to the remaining term of the existing mortgage plus 12 years not to exceed 30 years



References

- ML 11-11
- ML 11-06
- ML 10-36
- ML 10-35
- ML 10-28
- ML 10-24
- ML 10-23
- ML 10-19
- ML 10-02
- ML 09-48
- ML 09-32
- ML 09-08
- ML 08-40
- On-line HUD Handbook 4155.1, Chapter 3 and Chapter 6 Section C



Types

- Cash-out
- Rate-and-Term
- FHA-to-FHA Streamline
with and without appraisal
- Refinance for Borrowers in
Negative Equity Positions



Cash-Out Refinances



Considerations

- Maximum LTV= 85%
- Upfront MIP= 1.00%
- Refer to ML 10-28 for the appropriate annual premium

Eligibility Criteria

- Ownership as his or her principal residence for at least 12 months preceding the date of the application
- Mortgage payments made within the month due for the previous 12 months
- The property can be 1- 4 unit dwelling



Calculations

The maximum mortgage is calculated by taking:

- 85% of the appraised value if owned for 12 months or more OR
- 85% of the lower of appraised value or sales price if owned less than 12 months



Subordinate Liens

- New Subordinate Financing- CLTV limited to 85%
- Re-Subordinate- Existing liens may remain in place, but subordinated to FHA 1st, cannot exceed 85% CLTV (ML 10-36)



Considerations

- Delinquent Borrowers- Ineligible
- Paying off Land Contracts
- Properties Subject to Ground Rents



Considerations

- Non-occupants may remain on the cash-out if originally qualified
- An existing mortgage is not required
 - can be owned free and clear



Rate and Term Refinances



General Information

- Maximum LTV(Loan to Value) = 97.75%
- UFMIP(Upfront Mortgage Insurance Premium) = 1.00%
- CLTV(Combined Loan to Value) = 97.75%
- Refer to ML 10-28 for the appropriate annual premium



Calculations

The maximum mortgage is the lower of:

- 97.75% applied to the appraised value
- 97.75% of the lower of appraised value or sales price if owned less than 12 months & not already FHA-insured

OR

- Total existing indebtedness plus costs



Calculation

IA.		
\$	\$	Appraised Value
X	97.75%	97.75% ML 2008-40
=	\$	Max Loan Amount



Calculation

Existing Debt:

- Includes existing first lien, any purchase money second, any junior liens over 12 months, closing costs, pre-pays, borrower paid repairs required by the appraisal, discount points, and subtract any UFMIP refund



Calculation

\$	\$	Principal balance on existing first lien + prepayment penalties + up to <u>one month monthly MIP + 60 days interest charged by servicing lender for the current month + late charges + escrow shortages (ML 2005-43 and 2008-40)</u>
-	\$	MIP Refund, if applicable
+	\$	Allowable borrower-paid closing costs
+	\$	Property-related liens for acquisition, repair or rehabilitation or any other property liens that are seasoned at least 1 year
+	\$	Repairs required by the appraiser
+	\$	Prepaid Expenses (Per Diem interest to end of month on new loan + flood/hazard insurance deposits + real estate tax deposits)
+	\$	Reasonable Discount Points
=	\$	Maximum Mortgage BEFORE UFMIP



Considerations

- Subordinate liens, including credit lines, regardless when taken, may remain outstanding, but are subject to the 97.75% CLTV cap.
- New subordinate liens must be placed behind the FHA-loan, subject to the 97.75% CLTV cap
- Borrower cannot receive more than \$500 cash back



Streamline Refinances



Streamline

Purpose of streamline refinances:
to lower the monthly payment on a
current FHA-insured mortgage and must
involve no cash back, except for a minor
adjustment not to exceed \$500



Requirements

- HUD's Credit Alert Interactive Voice Response System(CAIVRS) need not be checked
- HUD's Limited Denial of Participation(LDP) is required
- General Services Administration(GSA) exclusion list is required



Seasoning

At the time of loan application:

- Borrower must have made at least 6 payments on the FHA-insured mortgage



Payment History

At the time of loan application the borrower must exhibit an acceptable pay history.



Payment History

- For mortgages with a 12 month payment history or greater, the borrower must have:
 - a) experienced no more than one 30 day late payment in the preceding 12 months, AND
 - b) made all mortgage payments within the month due for the 3 months prior to the date of the application



Net Tangible Benefit

There must be a net tangible benefit as a result of the streamline (with or without appraisal)

Net tangible benefit is defined as:

- 5% Reduction to the P&I(Principal and Interest) of the mortgage payment plus the annual MIP(Mortgage Insurance Premium), or
- Refinancing from an ARM(Adjustable Rate Mortgage) to a Fixed rate mortgage

Net Tangible Benefit Continued

To From	Fixed Rate	One-Year ARM	Hybrid ARM
Fixed Rate	Reduction of at least 5 percent of P&I and MIP (new guidance)	New interest rate of at least 2 percentage points below the current interest rate of the fixed rate mortgage (existing guidance)	Reduction of at least 5 percent of P&I and MIP (new guidance)
One-Year Arm	New interest rate no greater than 2 percentage points above the current interest rate of the ARM (existing guidance)	Reduction of at least 5 percent of P&I and MIP (new guidance)	New interest rate at least 2 percentage points below the current interest rate of the ARM (existing guidance)
Hybrid ARM During Fixed Period	Reduction of at least 5 percent of P&I and MIP (new guidance)	New interest rate of at least 2 percentage points below the current interest rate of the ARM (existing guidance)	Reduction of at least 5 percent of P&I and MIP (new guidance)
Hybrid ARM During Adjustable Period	New interest rate no greater than 2 percentage points above the current interest	Reduction of at least 5 percent of P&I and MIP (new guidance)	New interest rate at least 2 percentage points below the



Certifications

- Lenders may use an abbreviated version of the URLA (Uniform Residential Loan Application) only on non-credit-qualifying refinance transactions.
- If assets needed to close, must verify assets in binder.
- Lenders must include payoff statement in binder.



Credit Score

Credit score- If a score is available, the lender must enter it into FHA connection. If more than one credit score is available, lenders must enter all available credit scores



CLTV for Streamline Refinances

- For streamline refinances without an appraisal, the CLTV is based on the original appraised value of the property
- For streamline refinances with an appraisal, the CLTV is based on the new appraised value

If subordinate financing is remaining in place, the maximum CLTV is 125%



Streamline w/out Appraisal

The maximum insurable mortgage cannot exceed:

- The outstanding principal balance minus the applicable refund of the UFMIP, plus the new UFMIP that will be charged on the refinance



Calculation

IA

The outstanding principal balance minus the applicable refund of the UFMIP, plus the new UFMIP that will be charged on the refinance.



Streamline with an Appraisal

The outstanding principal balance minus the applicable refund of the UFMIP, plus the new UFMIP that will be charged on the refinance



Calculation

IA

The outstanding principal balance minus the applicable refund of the UFMIP, plus the new UFMIP that will be charged on the refinance.

CREDIT QUALIFYING STREAMLINE REFINANCES





Credit Qualifying Needed?

- When a deletion of borrower will trigger the due-on-sale clause
- Following an assumption of a mortgage that occurred less than 6 months previously



Refinances for Borrowers in Negative Equity Positions

- ML 2010-23 & 2010-36
- Effective for loans with case number assignments on or after September 7, 2010, and have closed on or before December 31, 2012.

Eligibility

- The homeowner(s) must be in a negative equity position.
- The homeowner(s) must be current on the existing mortgage to be refinanced.
- The homeowner(s) must occupy the subject property (1-4 Units) as their primary residence.
- The homeowner(s) must qualify for the new loan under standard FHA underwriting requirements with “FICO” credit scores equal or greater to 500.

Eligibility continued

- Existing loan to be refinanced must not be an FHA insured loan.
- The existing first lien holder must write off at least 10% of the unpaid principal balance.
- LTV of the refinanced FHA insured 1st mortgage cannot exceed 97.75%.
- Non-extinguished existing subordinate mortgages must be re-subordinated and the new loan may not have a CLTV greater than 115%.

Eligibility Continued

- No premium pricing permitted to pay off existing debt.
- FHA approved mortgagees are not permitted to make mortgage payments on behalf of the borrowers or otherwise bring the existing loan current to make it eligible for FHA insurance, with the exception of acceptable permanent loan modification.

Eligibility Continued

- Loans that receive a “refer” decision, and will be manually underwritten, the homeowner’(s) ratios for total monthly mortgage payment cannot exceed 31% of gross monthly income, and, total debt cannot be greater than 50% of gross monthly income.

Underwriting Requirements

- Loans must be run through Total scorecard to obtain a risk classification.
- If Total renders an “accept/approve” result, the lender’s underwriter does not need to personally review the borrower’s credit history and capacity to repay.
- Lenders are responsible for the data that is input in TOTAL.
- DE Underwriter has to review the appraisal.

Underwriting Requirements continued

- Lenders must still comply with outstanding rate and term refinance eligibility requirements.
- Major derogatory credit requires sufficient written explanation from the borrower.

Calculating Mortgage

- The refinanced FHA-insured mortgage must have a loan-to-value ratio of no more than 97.75 percent and all non-extinguished existing subordinate mortgages must be re-subordinated and may not result in a combined loan-to-value ratio greater than 115%.

Secondary Financing

- The terms of the subordinate lien(s) must not provide for a balloon payment before ten years, unless the property is sold or refinanced.
- The terms must permit prepayment by the borrower, without penalty, after giving 30 days advance notice.
- Periodic payments, if any, shall be collected monthly.
- If payments on subordinate financing are required, they must be included in the qualifying ratios unless payments have been deferred for no less than 36 months.

Borrower Certification

- Required for all Negative Equity Refinance loan applications on or after September 19, 2010.
- Refer to the Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 1481(d).

ADP Codes in FHA Connection

	Fixed	ARM
203(b)	821	822
Condo	831	832

Changes to CLTV Requirements for Refinance Transactions

- ML 2010-36 for case number assignment on or after 09/07/2010 supersedes ML 2010-24
- Effective per ML, only the FHA-insured first lien is subject to FHA's maximum mortgage limits
- Combined loan amount of the FHA-insured first mortgage and any subordinate liens cannot exceed applicable FHA loan-to-value (LTV) ratio

Maximum CLTV for Refinance Transactions

Rate and Term (or No Cash Out) Refinances	97.75%
Refinances for Borrowers in Negative Equity Positions	115%
FHA-to-FHA Streamline Refinances With or Without Appraisals	125%
Cash-out Refinances	85%

Changes to FHA MIP

- ML 2010-28: effective for FHA loans for which the case number is assigned on or after October 4, 2010

Upfront Premiums

Mortgage Type	UFMIP
Purchase Money Mortgages and Full-Credit Qualifying Refinances	1%
Streamline Refinances (all types)	1%

Changes to FHA MIP Continued

Annual Premiums

LTV	Annual Premiums for Loans > 15 years
= or < 95 percent	.85 %
> 95 percent	.90 %

LTV	Annual Premiums for Loans = or < 15 years
= or < 90 percent	-None-
> 90 percent	.25 %

Changes to FHA MIP Continued

HECM Loans

Premium Type	Basis Points
UPFRONT	2 %
ANNUAL	1.25%



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